Report

of the

Examination of

West Bend Mutual Insurance Company

West Bend, Wisconsin

As of December 31, 1999

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October 27, 2000

Honorable Alfred W. Gross
Chairman, Financial Condition (E)
Committee, NAIC
Commissioner of Insurance
Commonwealth of Virginia
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Richmond, VA 23218

Honorable Sally McCarty
Secretary, Midwestern Zone III, NAIC
Commissioner of Insurance
State of Indiana
311 West Washington Street, Suite 300
Indianapolis, IN 46204-2787

Honorable Connie L. O'Connell
Commissioner of Insurance
State of Wisconsin
121 East Wilson Street
Madison, WI 53702

Commissioners:

In accordance with your instructions, a compliance examination has been made of the affairs and financial condition of:

WEST BEND MUTUAL INSURANCE COMPANY
West Bend, Wisconsin

and this report is respectfully submitted.

I. INTRODUCTION

The previous examination of the company was conducted in 1995 as of December 31, 1994. The current examination covered the intervening period ending December 31, 1999, and included a review of such 2000 transactions as deemed necessary to complete the examination.

The examination consisted of a review of all major phases of the company's operations, and included the following areas:

History
Management and Control
Corporate Records
Conflict of Interest
Fidelity Bonds and Other Insurance
Employes' Welfare and Pension Plans
Territory and Plan of Operations
Affiliated Companies
Growth of Company
Reinsurance
Financial Statements
Accounts and Records
Data Processing

Emphasis was placed on the audit of those areas of the company's operations accorded a high priority by the examiner-in-charge when planning the examination. Special attention was given to the action taken by the company to satisfy the recommendations and comments made in the previous examination report.

The section of this report titled "Summary of Examination Results" contains comments and elaboration on those areas where adverse findings were noted or where unusual situations existed. Comment on the remaining areas of the company's operations is contained in the examination work papers.

The company is annually audited by an independent public accounting firm as prescribed by s. Ins 50.05, Wis. Adm. Code. An integral part of this compliance examination was the review of the independent accountant's work papers. Based on the results of the review of these work papers, alternative or additional examination steps deemed necessary for the completion of this examination were performed. The examination work papers contain documentation with respect to the alternative or additional examination steps performed during the course of the examination.

Independent Actuary's Review

Independent actuaries were engaged under a contract with the Office of the Commissioner of Insurance. They reviewed the adequacy of the company's loss reserves and loss adjustment expense reserves. The results of their work were reported to the examiner-in-charge. As deemed appropriate, reference is made in this report to the actuaries' conclusion.

II. HISTORY AND PLAN OF OPERATION

The company was organized in 1894, as West Bend Mutual Fire Insurance Company of Washington County under the provisions of the Wisconsin Statutes then in effect. In 1916 the company changed its name to West Bend Limited Mutual Fire Insurance Company and in 1926 dropped the word "Limited" from its name. During 1957, the company voted to change its name to that presently used.

The company writes direct premium in the following states:

Illinois	$ 66,436,074	26.2%
Indiana	7,239,065	2.9
Iowa	31,306,557	12.3
Minnesota	21,722,652	8.6
Wisconsin	127,268,057	50.0
	$253,975,406	100%

The major products marketed by the company include worker's compensation, auto liability, auto physical damage, other liability and homeowners multiple peril. The major products are marketed through 610 agencies consisting of 4,592 independent agents.

The following table is a summary of the net insurance premiums written by the company in 1999. The growth of the company is discussed in the Financial Data section of this report.

Line of Business	**Direct Premium**	**Reinsurance Assumed**	**Reinsurance Ceded**	**Net Premium**
Fire	$ 7,999,715	$ 8,432	$ 460,484	$ 7,547,663
Allied lines	4,301,447	32,878	245,655	4,088,671
Homeowner's multiple peril	21,791,149	1,087,723	843,510	22,035,362
Commercial multiple peril	9,463,188	466,637	1,020,448	8,909,377
Inland marine	9,196,334	83,723	440,910	8,839,148
Worker's compensation	65,221,954	3,432,453	3,269,816	65,384,591
Other liability - occurrence	24,402,938	92,964	4,558,287	19,937,615
Products liability - occurrence	3,334,176	1,152	132,817	3,202,511
Private passenger auto liability	39,202,209	1,339,420	1,114,628	39,427,002
Commercial auto liability	25,649,030	340,686	749,048	25,240,668
Auto physical damage	43,065,787	2,222,251	1,211,540	44,076,498
Surety	8,165	0	156	8,009
Burglary and theft	339,313	0	8,710	330,603
Reinsurance—nonproportional assumed property	0	100,133	0	100,133
Total All Lines	$253,975,406	$9,208,454	$14,056,009	$231,717,203

III. MANAGEMENT AND CONTROL

Board of Directors

The board of directors normally consists of nine members. However, the directorship held by one of the directors had not been filled as of the end of fieldwork. Three directors are elected annually to serve a three-year term. Officers are elected at the board's annual meeting. The board members currently receive an annual retainer fee of $12,000 for serving on the board. Company officers who serve as board members receive no compensation.

Currently the board of directors consists of the following persons:

Name and Residence	Principal Occupation	Term Expires
Peter D. Ziegler Slinger, WI	Director for B.C. Ziegler & Company	January,2001
John Dragisic Elm Grove, WI	President of The Charlton Group	January, 2001
Russell M. Darrow Jr. West Bend, WI	Chairman and CEO of Russ Darrow Group	January, 2002
Gordon H. Gunnlaugsson Chenequa, WI	CFO of Marshall & Ilsley Corporation	January, 2002
Mary Ellen Stanek Wauwatosa, WI	Managing Director & CIO of Baird Advisors	January, 2002
John R. Dedrick West Bend, WI	Chairman & CEO of WBMIC	January, 2003
George E. Prescott West Bend, WI	President of Prescott's Supermarkets, Inc.	January, 2003
Robert L. Butzke Slinger, WI	President of Northbrook Ins. Assoc., Inc.	January, 2003

Officers of the Company

The officers serving at the time of this examination are as follows:

Name	Office	1999 Compensation
John R. Dedrick	President	$366,865
Larry G. Roth	Secretary-Treasurer	$158,817
John F. Duwell	VP – Claims	$153,268
Daniel P. Roskopf	VP – Corporate Accounting	$108,456
Thomas A. Lindell	Senior VP	$141,035
John G. Knaack	VP –Information Systems	$127,296
Kevin A. Steiner	VP –Marketing	$121,575
Kenneth J Mclean	VP –Human Resources	$108,031
Amy M Buechel	VP –Planning	$94,566

Committees of the Board

The company's bylaws allow for the formation of certain committees by the board of directors. Board members who chair committees receive $400 per meeting and other committee members receive $300 per meeting except for the “finance committee” where the chair receives $600 per meeting and the other committee members receive $500 per meeting. The committees at the time of the examination are listed below:

Executive Committee
John Dragisic, Chair
George E. Prescott
Peter D. Ziegler
John Diedrick (ex-officio)

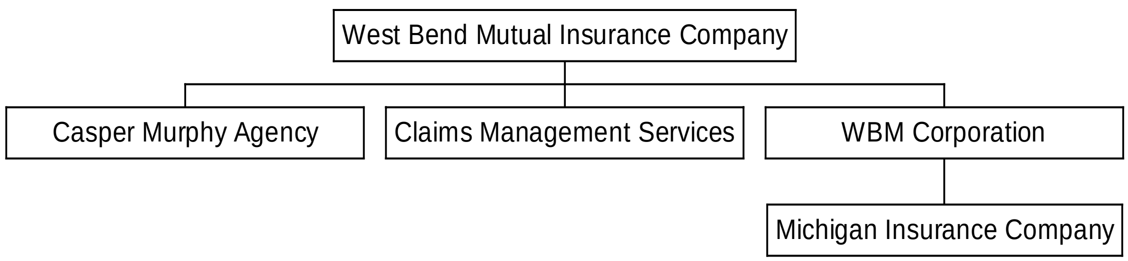
Finance Committee
Gordon H. Gunnlaugsson, Chair
Mary Ellen Stanek
John Diedrick (ex-officio)

Compensation/Benefit Committee
Russell M. Darrow, Jr., Chair
Robert L. Butzke
John Dragisic
John Diedrick (ex-officio)

IV. AFFILIATED COMPANIES

West Bend Mutual Insurance Company is the parent member of a holding company system. The organizational chart below depicts the relationships among the affiliates in the group. A brief description of the significant affiliates of West Bend Mutual Insurance Company follows the organizational chart.

Organizational Chart
As of December 31, 1999



Casper-Murphy Agency, Inc.

Casper-Murphy Agency, Inc., is a wholly owned subsidiary of the company. The company markets fully insured health and life insurance plans and self-funded plans through a third-party administrator, Claims Management Services, Inc. As of December 31, 1999, the company's audited financial statement reported assets of $4,031,300, liabilities of $439,028, net worth of $3,592,272. Operations for 1999 produced net income of $463,187.

Claims Management Services

Claims Management Services is a wholly owned subsidiary of the company. The company is a third-party administrator of self-funded employee benefit plans. As of December 31, 1999, the company's audited financial statement reported assets of $4,641,826, liabilities of $490,099, and net worth of $4,151,727. Operations for 1999 produced net income of $640,770.

WBM Corporation

WBM Corporation is a 100% owned holding company, which currently owns about 90% of Michigan Insurance Company. Additionally, the holding company currently owns some real estate property, which it is leasing to its tenants. As of December 31, 1999, the company's unaudited financial statement reported assets of $7,051,370, liabilities of $188,355, and net worth of $7,051,370. Operations for 1999 produced a net loss of $1,331,087.

Michigan Insurance Company (MICO)

MICO is 90% owned by WBM Corporation with the remaining 10% owned primarily by agents of the company with some minor amount of ownership by officers of the company. MICO is a property casualty insurance company domiciled in Grand Rapids, Michigan. Currently West Bend assumes 80% of the business written by the company. As of December 31, 1999, the company's audited financial statement reported assets of $19,166,037, liabilities of $11,849,686, and net worth of $7,316,351. Operations for 1999 produced a net loss of $1,736,127.

V. REINSURANCE

The company's reinsurance portfolio and strategy is described below. A list of the companies that have a significant amount of reinsurance in force at the time of the examination follows. The contracts contained proper insolvency provisions.

Nonaffiliated Ceding Contracts

1.	Type:	Aggregate Excess
	Reinsurer:	Pool of Reinsurers: American Re-Insurance Company (40%) Continental Casualty Company (20%) SCOR Reinsurance Company (20%) Winterthur Reinsurance Corporation of America (20%)
	Effective Date:	January 1, 1998
	Termination Provisions:	The company may terminate the contract on any December 31 starting 12/31/98t by giving the other party not less than 15 days prior notice by certified mail if the experience account balance less any outstanding loss amounts is positive as of the date of terminations.
	Scope:	All lines of business written by the company
	Retention:	62.5% of its net premiums earned for the year
	Coverage:	The company's aggregate losses exceeding its retention level not to exceed \$15m for any one accident year and not to exceed \$30m over the life of the contract.
	Premium:	\$2,650,000 for each year of the contract (paid quarterly)
	Experience Account:	The experience account is to be reported to the reinsurer every quarter and calculated on accumulative basis as follows: Reinsurance premiums paid; less 7.5% of those same premiums paid (for expense); less ultimate net losses paid by the reinsurer; plus any interest credits earned on positive balances.
2.	Type:	Excess Reinsurance
	Reinsurer:	Pool of Reinsurers: <u>First Layer</u> Erie Insurance Exchange Co (5%) GE Reinsurance Corporation (20%) Partner Reinsurance Company of the US (25%) SCOR Reinsurance Company (35%) Company retains the other 15%

	<u>Second Layer</u> American Re-Insurance Company (12.5%) Erie Insurance Exchange (10%) Folksamerica Reinsurance Company (5%) GE Reinsurance Corporation (10%) Partner Reinsurance Company of the US (25%) SCOR Reinsurance Company (37.5%)
	<u>Third Layer</u> American Re-Insurance Company (20%) Erie Insurance Exchange (10%) Folksamerica Reinsurance Company (5%) GE Reinsurance Corporation (2.5%) Hartre Co. LLC/Hartford Fire Insurance Co. (20%) Partner Reinsurance Company of the U.S. (25%) Republic Western Insurance Company (5%) SCOR Reinsurance Company (12.5%)
	<u>Fourth Layer</u> GE Reinsurance Corporation (10%) Hartre Co. LLC/Hartford Fire Insurance Co. (10%) NAC Reinsurance Corporation (40%) St. Paul Re. Inc./St. Paul Fire & Marine Ins. (40%)
Effective Date:	January 1, 2000
Termination Provisions:	By either party at the end of any calendar year by giving the other party 60 days' prior notice by certified mail.
Scope:	<u>First, Second and Third Layers</u>: All lines of business written by the company. <u>Fourth Layer</u>: Excess Liability Reinsurance (all liability lines written by the company).
Retention:	Property: $350,000 Liability: $450,000 Surety: $400,000 Property & Liability: $450,000 15% of the amount ceded under the first layer
Coverage:	<u>First Layer</u> Property: $650,000 excess of $350,000 per risk; $1,950,000 per occurrence maximum Liability: $550,000 excess of $450,000 per risk Surety: $600,000 excess of $400,000 per risk Property & Liability: $350,000 excess of $450,000 per risk

Second Layer
Property: $1,000,000 excess of $1,000,000 per risk; $3,000.000 per occurrence maximum
Liability: $1,000,000 excess of $1,000,000 per risk
Surety: $1,000,000 excess of $1,000,000 per risk

Third Layer
Property: $3,000,000 excess of $2,000,000 per risk; $9,000,000 per occurrence maximum
Liability: $3,000,000 excess of $2,000,000 per risk
Surety: $3,000,000 excess of $2,000,000 per risk

Fourth Layer
Liability: $5,000.000 excess of $5,000,000 per risk

Premium: First Layer: Provisional premium equal to 1.5% of gross net earned premium (GNEP) and subject to a minimum of .32% of GNEP, plus a Part A deposit premium equal to 1.5% of GNEP for a total of $7,507,500.

The company shall deposit in a Security Trust Fund, securities with a market value at least equal to the Part A premium ($3,753,750) plus premium equal to 80% of the actual interest, dividends, or other investment income earned by the company on any securities held in the fund; referred to as Part B premium.

Second Layer: Greater of $2,439,136 or the sum of the following: property: 28% of gross net earned Umbrella premium; 0.32% gross net earned premium Liability and Surety; 1.3% of the gross net earned casualty premium income; paid each annual period: Deposit premium of $3,048,920.

Third Layer: During each annual period the greater of $590,540 or the sum of the following: property: 0.38% of the gross net earned property premium income: 0.25% of the gross net earned liability premium income and surety premium: Deposit premium of $738,175.

Fourth Layer: Greater of $218,000 or 0.175% the gross net earned premium income not to exceed 0.35% of gross net earned premium income: Deposit premium of $272,400.

Security Fund: The company shall maintain a balance in a Security Fund, for each calendar year at least equal to the following: the balance carried forward from the company's First Layer Multiple Line Excess treaty effective January 1, 1995 thru December 31,1999; plus Part A premium; plus Part B premium; less Reinsurer's losses paid from the Security Fund; less withdrawn profit-sharing

	Profit Sharing:	First Layer: 100% of the reinsurer's net profit for each calendar year. Net profit is calculated as follows: Part A premium plus Part B; less the amount by which the Reinsurer's losses incurred for the calendar year exceed 1.18% of GNEP. Profit commissions can be withdrawn from the Security Funds as follows: Securities with amortized values not great than the following: 33-1/3% after 36 months; 66-2/3% after 48 months, and 100% after 60 months.
	Second Layer:	70% of the reinsurer's net profit. Net profit equals earned reinsurance premiums less reinsurance expenses (20% of earned premium), less losses incurred and reinsurer's net loss, from the immediately preceding accounting period.
3.	Type	Umbrella [pcm20]Liability Excess of Loss Reinsurance
	Reinsurer:	American Re-Insurance Company
	Effective Date:	January 1, 2000
	Termination Provisions:	By either party by at any time by giving at least 120 days' prior written notice.
	Scope:	All personal and commercial umbrella liability policies up to $10,000,000
	Retention:	The company retains $1,000,000
	Coverage:	$9,000,000 in excess of $1,000.000
	Premium:	100% of the premiums applicable to the Reinsurer's limits of liability.
	Commission:	32.5% of the NWP ceded in this agreement including tax assessments and other expenses (except LAE)

Following this paragraph are outlines of two catastrophe excess reinsurance contracts covering losses up to $80 million. The two contracts have the same retention level and layers. A multi-year contract covering 25% of catastrophic risk was entered into in 1998 when some of the reinsurers agreed to a reinsurance premium for a three-year period. Additional risk is covered under a one-year agreement. The net effect of these two catastrophe contracts is that the company retains $2.25 million, plus 35% of the first layer, 7.5% of the second layer, and 5% of the third layer losses. On an $80 million dollar loss the company would retain $6,812,500.

4.	Type	Catastrophe Excess Reinsurance
	Reinsurer:	Pool of Reinsurers

First Layer:
American Agricultural Ins. Company (2%)
Employers Mutual Casualty Company (3%)
Erie Insurance Exchange (6.5%)
GE Reinsurance Corporation (5%)
Insurance Corporation of Hannover (10%)
Republic Western Ins. Company (2%)
SCOR Reinsurance Company (2%)
Shelter Mutual Insurance Company (2%)
X.L. Mid Ocean Reinsurance Co. Ltd. (2.5%)
GAN Insurance Company Ltd. (2.32%)
Lloyds Underwriters thru MRM Hancock Ltd. (2.68%)
The company cedes 40% under this layer

Second Layer:
American Agricultural Ins. Company (4%)
Employers Mutual Casualty Company (3%)
Farm Family Casualty Ins. Company (1.5%)
Erie Insurance Exchange (3%)
GE Reinsurance Corporation (1.5%)
Hannover Ruckversicherung AG (5%)
Insurance Corporation of Hannover (5%)
PartnerRe Insurance Co. of New York 5%)
Odyssey Reinsurance Corporation (10%)
Republic Western Ins. Company (3%)
Shelter Mutual Insurance Company (5%)
Sorema North America Re. Company (5%)
X.L. Mid Ocean Reinsurance Co. Ltd. (0.5%)
QBE International Insurance Ltd. (4.41%)
GAN Insurance Company Ltd. (2.21%)
Lloyds Underwriters thru MRM Hancock Ltd. (9.38%)
The company cedes 67.5% under this layer

Third Layer:
American Agricultural Ins. Company (3%)
Erie Insurance Exchange (0.5%)
Farm Family Casualty Ins. Company (0.6%)
GE Reinsurance Corporation (2%)
Hannover Ruckversicherung AG (7.5%)
Hartford Fire Insurance Company (5%)
Lloyd's Underwriters thru Patriot Re Corporation (1%)
Motors Insurance Corporation (5%)
PartnerRe Insurance Co. of New York (2.5%)
Odyssey Reinsurance Corporation (7.5%)
Republic Western Ins. Company (0.5%)
Sorema North America Re. Company (5.5%)
Tokio Re Corporation (0.5%)
X.L. Mid Ocean Reinsurance Co. Ltd. (1%)
QBE International Insurance Ltd. (4.59%)
GAN Insurance Company Ltd. (0.76%)
Lloyds Underwriters thru MRM Hancock Ltd. (22.55%)
The company cedes 70% under this layer

Effective Date: January 1, 2000

Termination: January 1, 2001

	Scope:	Covers all liability written by the company
	Retention:	The company retains $2,250,000 60% of the amount ceded under the first layer 32.5% of the amount ceded under the second layer 30% of the amount ceded under the third layer
	Coverage:	First Layer: $1,750,000 in excess of $2,250,000 per occurrence; $3,500,000 maximum annual aggregate Second Layer: $6,000,000 in excess of $4,000,000 per occurrence; $12,000,000 maximum annual aggregate Third Layer: $40,000,000 in excess of $10,000,000 per occurrence, $80,000,000 maximum annual aggregate
	Premium:	First Layer: Greater of $357,600 or 0.7982% of its net subject earned premium and a deposit premium of $447,000 Second Layer: Greater of $430,000 or 0.961% of its net subject earned premium and a deposit premium of $538,000 Third Layer: Greater of $688,800 or 1.538% of its net subject earned premium and has to pay a deposit premium of $861,000
	Co-Participation:	The company shall retain at least 5% of the risk that the reinsurer assumes in the contract.
5.	Type:	Multi-Year Catastrophe Excess Reinsurance
	Reinsurer:	Pool of Reinsurers: Employers Mutual Casualty Company (2%) Erie Insurance Exchange (4%) HIH Casualty &General Insurance Ltd. (3.65%) Lloyd’s Underwriters (7.85%) Nationwide Mutual Insurance Company (4%) Sorema North America Reinsurance Co. (3.50%) The company cedes 25% under this agreement.
	Effective Date:	January 1, 1998
	Termination	January 1, 2001
	Scope:	Property business
	Retention:	The company retains $2,250,000 75% of the amount ceded
	Coverage:	First Layer: $1,750,000 in excess of $2,250,000 per occurrence; $3,500,000 maximum per year Second Layer: $6,000,000 in excess of $4,000,000 per occurrence; $12,000,000 maximum per year

	Third Layer: $40,000,000 in excess of $10,000,000 per occurrence, $80,000,000 maximum per year
Premium:	First Layer: Greater of $208,000 or 0.46% of its net subject earned premium and has to pay a deposit premium of $260,000 subject to a minimum of $208,000
	Second Layer: Greater of $240,000 or 0.536% of its net subject earned premium and has to pay a deposit premium of $300,000
	Third Layer: Greater of $582,400 or 1.3% of its net subject earned premium and has to pay a deposit premium of $728,000
Contingent Commission:	20% of the net profit Net profit is defined as follows: Premiums earned; less expenses incurred by the reinsurer (15% of premiums earned); less losses incurred

Affiliated Assumed Reinsurance Contracts

1.	Type:	Quota Share Reinsurance
	Reinsured:	Michigan Insurance Company (MIC)
	Effective Date:	January 1, 2000
	Termination Provisions	At the end of any calendar year, by either party giving at least 90 days' prior notice by certified mail.
	Scope:	All lines of business written
	Assumed Business:	WBMIC assumes 80% of the company's net liability
	Commission:	MIC will receive a 35% commission on net premiums written
		The company will receive a contingent commission equal to 100% of net profits on the assumed business. Net profit is calculated as follows: Net earned premium; less ceding commission (above), expenses incurred (5% of net premiums earned); less losses incurred plus IBNR; less reinsurer's net loss, if any, from the immediately preceding accounting period.

VI. FINANCIAL DATA

The following financial statements reflect the financial condition of the company as reported in the December 31, 1999, annual statement to the Commissioner of Insurance. Also included in this section are schedules which reflect the growth of the company, NAIC Insurance Regulatory Information System (IRIS) ratio results for the period under examination, and the compulsory and security surplus calculation. Adjustments made as a result of the examination are noted in the section of this report captioned "Reconciliation of Surplus per Examination."

West Bend Mutual Insurance Company
Assets
As of December 31, 1999

	Ledger Assets	Nonledger Assets	Nonadmitted Assets	Admitted Assets
Bonds	$365,367,113	$	$ 47,250	$365,319,863
Stocks:				
Preferred stocks	8,987,101		34,925	8,952,176
Common stocks	41,427,122	27,297,353		68,724,475
Mortgage loans on real estate:				
First liens	135,000			135,000
Real estate:				
Occupied by the company	13,847,753			13,847,753
Cash	7,347,914			7,347,914
Short-term investments	10,510,513			10,510,513
Other invested assets	34,097			34,097
Agents' balances or uncollected premiums:				
Premiums and agents' balances in course of collection	6,048,603		69,562	5,979,041
Premiums, agents' balances, and installments booked but deferred and not yet due	65,582,432		76,659	65,505,774
Funds held by or deposited With reinsured companies	98,270			98,270
Reinsurance recoverables on loss and adjustment payments	1,015,969			1,015,969
Federal income tax recoverable and interest thereon				
Electronic data processing equipment	2,447,317		244,750	2,202,567
Interest, dividends due and accrued		5,813,638		5,813,638
Receivable from parent, subsidiaries, and affiliates	1,167			1,167
Equities and deposits in pools and associations	121,181			121,181
Other assets nonadmitted:				
Furniture, equipment and supplies	2,616,664		2,616,664	
Write-ins for other than invested assets:				
Insurance policy value	274,960			274,960
Amreco surplus notes	366,679		299,943	66,736
Advances to employees	342,576		342,576	
Total Assets	$526,572,431	$33,110,991	$3,732,329	$555,951,093

West Bend Mutual Insurance Company
Liabilities, Surplus, and Other Funds
As of December 31, 1999

Losses	$171,764,135
Reinsurance payable on paid loss and loss adjustment expenses	
Loss adjustment expenses	64,729,185
Contingent commissions and other similar charges	3,800,000
Other expenses (excluding taxes, licenses, and fees)	2,830,000
Taxes, licenses, and fees (excluding federal and foreign income taxes)	1,305,325
Federal and foreign income taxes (excluding deferred taxes)	1,429,108
Unearned premiums	126,509,449
Dividends declared and unpaid:	
Policyholders	1,750,000
Funds held by company under reinsurance treaties	35,204
Amounts withheld or retained by company for the account of others	1,302,828
Provision for reinsurance	236,818
Total Liabilities	375,692,051
Write-ins for special surplus funds:	
Guaranty funds	1,000,000
Unassigned funds (surplus)	179,259,041
Surplus as Regards Policyholders	180,259,041
Total Liabilities, Surplus, and Other Funds	$555,951,093

West Bend Mutual Insurance Company
Summary of Operations
For the Year 1999

Underwriting Income	
Premiums earned	$231,717,203
Deductions	
Losses incurred	129,405,402
Loss expenses incurred	28,082,773
Other underwriting expenses incurred	72,891,486
Total underwriting deductions	230,379,660
Net underwriting gain or loss	1,337,543
Investment Income	
Net investment income earned	26,184,217
Net realized capital gains or losses	518,930
Net investment gain or loss	26,703,148
Other Income	
Net gain or loss from agents' or premium balances charged off	(23,564)
Finance and service charges not included in premiums	906,194
Write-ins for miscellaneous income:	
Miscellaneous Income	11,855
Total other income	894,485
Net income before dividends to policyholders and before federal and foreign income taxes	28,395,176
Dividends to policyholders	8,017,233
Net income after dividends to policyholders but before federal and foreign income taxes	20,917,943
Federal and foreign income taxes incurred	4,368,232
Net Income	$ 16,549,711

West Bend Mutual Insurance Company
Cash Flow
As of December 31, 1999

Premiums collected net of reinsurance	$239,083,023		
Loss and loss adjustment expenses paid (net of salvage or subrogation)	159,222,428		
Underwriting expenses paid	69,142,274		
Cash from underwriting		$ 10,718,321	
Investment income (net of investment expense)	27,881,835		
Other income (expenses):			
Agents' balances charged off	(23,564)		
Net funds held under reinsurance treaties	(3,220)		
Net amount withheld or retained for account of others	1,013,885		
Write-ins for miscellaneous items:			
Finance Charges	906,194		
Miscellaneous Income	11,855		
Equities and deposits in pools and associations	(81,268)		
Total other income		1,823,882	
Deduct:			
Dividends to policyholders paid		7,517,233	
Federal income taxes paid (recovered)		(295,064)	
Net cash from operations			$ 32,611,742
Proceeds from investments sold, matured, or repaid:			
Bonds	161,221,871		
Stocks	11,705,069		
Other invested assets	4,036		
Total investment proceeds		172,930,976	
Cost of investments acquired (long-term only):			
Bonds	176,861,228		
Stocks	10,244,150		
Total investments acquired		187,105,379	
Net cash from investments			(14,174,403)
Cash provided from financing and miscellaneous sources:			
Net transfers from affiliates	152		
Other cash provided	170,471		
Total		170,622	
Cash applied for financing and miscellaneous uses:			
Other applications	191,318		
Total		191,318	
Net cash from financing and miscellaneous sources			(20,696)
Net change in cash and short-term investments			18,416,643

Reconciliation

Cash and short-term investments, December 31, 1998	(558,216)
Cash and short-term investments, December 31, 1999	$ 17,858,427

West Bend Mutual Insurance Company
Compulsory and Security Surplus Calculation
December 31, 1999

Assets		$555,951,093	
Less investment in insurance subsidiaries not in excess of subsidiaries' security surplus			
Less liabilities		375,692,051	
Adjusted surplus			$180,259,041
Annual premium:			
All other insurance	$241,110,618		
Factor	20%		
Total		48,222,124	
Compulsory surplus (subject to a minimum of $2 million)			48,222,124
Compulsory surplus excess (or deficit)			$132,036,918
Adjusted surplus			$180,259,041
Security surplus: (140% of compulsory surplus, factor reduced 1% for each $33 million in premium written in excess of $10 million with a minimum of 110%)			64,135,424
Security surplus excess (or deficit)			$116,123,617

West Bend Mutual Insurance Company
Reconciliation and Analysis of Surplus
For the Five-Year Period Ending December 31, 1999

The following schedule is a reconciliation of total surplus during the period under examination as reported by the company in its filed annual statements (000's):

	1995	**1996**	**1997**	**1998**	**1999**
Surplus, beginning of year	$86,149	$112,618	$127,758	$145,093	$155,436
Net income	21,574	13,007	3,026	324	16,550
Net unrealized capital gains or (losses)	4,889	2,876	5,894	4,149	8,099
Change in nonadmitted assets	(197)	(333)	297	(82)	196
Change in provision for reinsurance	43	33	(12)	(143)	(22)
Change in excess of statutory reserves over statement reserves	160	(443)	8,130	6,095	
Surplus, end of year	$112,618	$127,758	$145,093	$155,436	$180,259

West Bend Mutual Insurance Company
Insurance Regulatory Information System
For the Five-Year Period Ending December 31, 1999

The following is a summary of NAIC Insurance Regulatory Information System (IRIS) results for the period under examination. There was one exceptional ratio in 1998., the two-year overall operating ratio. This was primarily due the company experiencing unusually severe losses during 1998. Another contributed factor was the decrease in premium for 1998 because of the execution of a new aggregate stop-loss reinsurance.

	Ratio	**1995**	**1996**	**1997**	**1998**	**1999**
#1	Gross Premium to Surplus	197%	178%	164%	152%	146%
#1A	Net Premium to Surplus	185	169	159	144	138
#2	Change in Net Writings	8	4	7	-3	11
#3	Surplus Aid to Surplus	0	0	0	0	0
#4	Two-Year Overall Operating Ratio	87	89	96	101*	96
#5	Investment Yield	5.8	5.6	5.6	5.24	5.84
#6	Change in Surplus	26	12	11	7	17
#7	Liabilities to Liquid Assets	83	74	74	73	71
#8	Agents' Balances to Surplus	1	3	3	2	3
#9	One-Year Reserve Devel. to Surplus	-7	-12	-1	-4	-14
#10	Two-Year Reserve Devel. to Surplus	-13	-17	-16	-5	-13
#11	Estimated Current Reserve Def. To Surplus	-10	-18	-19	-22	-11

*=Exceptional Iris Ratio

Growth of West Bend Mutual Insurance Company

Year	Admitted Assets	Liabilities	Surplus As Regards Policyholders	Net Income
1995	$415,937,620	$303,319,831	$112,617,790	$21,573,262
1996	449,622,882	321,864,871	127,758,011	13,007,109
1997	488,030,545	342,937,817	145,092,729	3,025,856
1998	509,365,725	353,928,988	155,436,737	323,730
1999	555,951,093	375,692,051	180,259,041	16,549,711

Year	Gross Premium Written	Net Premium Written	Premium Earned	Loss And LAE Ratio	Expense Ratio	Combined Ratio
1995	$217,938,015	$249,127,851	$203,170,292	63.4%	28.7%	92.1%
1996	224,443,903	223,790,297	210,712,096	69.8	28.9	98.7
1997	236,362,650	230,976,536	227,481,849	79.3	26.9	106.2
1998	234,525,802	215,705,931	221,964,926	81.9	27.9	109.8
1999	253,975,406	208,022,718	231,717,203	67.9	28.9	96.8

During 1998 the company incurred an abnormally high frequency and severity of losses and an abnormal number of catastrophe losses. Eight catastrophes (total losses greater than $1 million) occurred in 1998 totaling $32 million on a direct basis. As a result the loss ratio was high and the net income was the lowest in the period under review

Reconciliation of Surplus per Examination

There were no adjustments or reclassifications to surplus as a result of this examination.

VII. SUMMARY OF EXAMINATION RESULTS

Compliance with Prior Examination Report Recommendations

There were eight specific comments and recommendations in the previous examination report. Comments and recommendations contained in the last examination report and actions taken by the company are as follows:

1. Management and Control—It is again recommended that the company amend its custodial agreements to meet the minimum safeguards and controls established by the NAIC as stated in this section of the report.

   Action—Compliance

2. Management and Control—It is recommended that the company's custodian execute separate agreements with its affiliate for investment management and custodial safeguarding pursuant to ss. 601.42 and 610.23 (1), Wis. Stat.

   Action—Compliance

3. Management and Control—It is recommended that the company establish an annual procedure which ensures that all agents/agencies have the proper coverage of professional liability for errors and omissions in accordance with the company's agency agreement.

   Action—Noncompliance

4. Management and Control—It is suggested that the company affix signatures of all parties to the tax agreement with its affiliates to avoid possible future income tax conflicts.

   Action—Compliance

5. Management and Control—It is recommended that the company report separately in Schedule Y, Part 1, all subsidiaries with distinct federal tax ID numbers as separate entities in the organizational chart in accordance to the NAIC Annual Statement Instructions-Property and Casualty.

   Action—Compliance

6. Bills Receivable, Taken for Premium—It is suggested that the company develop a data base in order to automate the policyholders manual ledger card system to properly account for its bills receivable.

   Action—No longer applicable

7. Bills Receivable, Taken for Premium—It is recommended that the company establish procedures to ensure current bills receivable premium past due and the outstanding note balances are recorded as a nonadmitted asset in accordance with the NAIC Annual Statement Instructions-Property and Casualty companies.

   Action— No longer applicable

8. Bills Receivable, Taken for Premium—It is again recommended that the company establish a control which ensures that the excess of notes receivable over the unearned premium of the policies concerned be nonadmitted as an asset pursuant to the NAIC Annual Statement Instructions-Property and Casualty *companies*.

   Action—No longer applicable

Summary of Current Examination Results

Investments

During the review of the company's investment portfolio, it was noted that four securities were not filed with the NAIC's Securities Valuation Office (SVO). It is recommended that the company file all securities with the SVO as outlined in the NAIC Securities Valuation Office Purposes and Procedures Manual.

The company entered into a securities-lending agreement with its primary bank effective September 17, 1998. The review of the agreement indicated that the bank will collect 102% of the market value of loaned securities, as required by the SVO. However, it does not address some of the other requirements established by the *SVO* for security lending transactions. It is recommended that the company amend its security lending agreement to specify the bond valuation service to be used in the daily market-to-market valuation and that either the collateral must be denominated in the same currency as the loaned security, or that 105% of the market value must be given as collateral, if in a different denomination than the loaned security.

The company relies entirely on the bank to administer and track the securities lending program. The company receives a monthly statement, which does not include any collateral information; the monthly statement is used to record income earned. The company does not monitor collateral percentages or perform any reconciliation between its records and the bank's. However, the review of loaned securities transactions indicated that in the case of US Treasuries, the bank was monitoring the collateral but not requesting any additional funds from the brokers when the collateral fell below the required 102% of market value. It is recommended that the company request, on a quarterly basis, a report detailing all loaned securities and the associated collateral which can be used to determine that the bank is collecting the required 102% of market value of each security loaned, as required by its securities lending agreement and the SVO.

The market value of all loaned securities as of year-end are reported in response to General Interrogatory 20 as part of the annual statement. The company obtains this information from a year-end report prepared by the bank. However, the company had used incorrect amounts from the report and, as a result, the market value was not correctly disclosed. It is recommended that in response to General Interrogatory 20, the company report the correct market value of the securities loaned to others at year-end.

In 1997 the company entered into a mortgage loan agreement with its affiliate WBM Corporation. However, no formal loan agreement was written up and therefore no mortgage agreement was filed with the county regarding the collateral real estate. It is recommended that the company either prepare a mortgage loan agreement with WBM Corporation and then file it with the county, or report the outstanding principal as an unsecured loan to an affiliate and nonadmit it.

Amounts Withheld or Retained by Company for Account of Others

The review of this account indicated that it contained a holding account used to hold funds received with a new business application. These funds would be more appropriately recorded as remittances and items not allocated. It is recommended that the company report payments received with applications for new business as remittances and items unallocated as set forth in the NAIC's Accounting Practices and Procedures Manual.

Agents' Balances or Uncollected Premiums

This account contained premium payments received in advance of the effective date of the policy. It is recommended that the company remove the advance premiums from agents' balances or uncollected premiums and report them as a separate liability as set forth in the NAIC's Accounting Practices and Procedures Manual.

Unearned Premium

The company calculates premiums in-force and unearned premium by using a summary report. This report summarizes premiums in-force and unearned reserves by line- of-business and expiration month. The company could not readily produce the policy detail behind this report.

However, the company retains all monthly changes to in-force records, excluding expirations, on microfiche. These records are kept on a per policy basis but not organized in the same manner as the unearned premium report..

The company's detail records enabled the examiner to test the changes in in-force but not the in-force at any date, which includes year-end. This was because the change in in-force was by policy detail for all business and could not be linked to the unearned premium report that was organized by line of business and effective date of the policy ..

The examiners relied on alternative methods to verify that the unearned premium reserve was reasonably stated on the annual statement. However, without an adequate audit trail the examiners could not verify the unearned premium with certainty. Therefore, it is recommended that the company retain premium in-force records in a manner that would provide an audit trail between the company's in-force records and the unearned premium report(s) in compliance with s. Ins 6.80, Wis. Adm. Code.

Underwriting and Agency Operations

The prior exam resulted in a recommendation that the company establish a procedure that would ensure that all agents and/or agencies have professional liability for error and omissions in accordance with the company's agency agreement. The review of these procedures indicated that a questionnaire was developed for monitoring agency E & O coverage requirements. However, the questionnaire does not address the amount of liability coverage obtained nor does it require a declaration page to be submitted, which is also required by the agency agreement. A review of errors and omissions coverages was conducted on a sample basis. No coverage could be verified for some of the selected agencies. It is again recommended that the company establish an annual procedure, which ensures that all agents/agencies have the proper coverage of professional liability for errors and omissions in accordance with the company's agency agreement.

The examiners found that the company charges a service fee on worker's compensation insurance policies on installment billing plans. Section 626.25 (1), Wis. Stat., provides that no insurer may use a rate, rating, plan or classification, nor an expense loading not approved by the Commissioner. The Wisconsin Compensation Rating Bureau (WCRB) received approval from this office in late December for the use of service charges or fees related to installment billing plans. However the company has not filed its service fees with WCRB. In order to comply with s. 626.25 (1), Wis. Stat., it is recommended that the company discontinue charging service fees for installment billing plans on worker's compensation insurance policies until it files its service fees with the WCRB pursuant to WCRB's circular letters #2862 and #2864.

VIII. CONCLUSION

The prior examination resulted in eight recommendations. One of them was not complied with and three pertained to procedures, which are no longer applicable. The current examination resulted in ten recommendations, including a repeat recommendation, which are summarized in the comments and recommendations section of this report. There were no adjustments to surplus or reclassification of account balances as a result of this examination.

During the period under examination surplus increased 60% and net premiums written increased 19%. The company reported underwriting losses in two of the years under examination, 1997 and 1998. In particular 1998 was the company's worst year in terms of catastrophe losses. Eight catastrophes (total losses greater than $1 million) occurred in 1998 totaling $32 million on a direct basis. As a result the loss ratio was high and the net income was the lowest in the period under review. However, the company did report a profit in each of the past five years despite the heavy losses.

IX. SUMMARY OF COMMENTS AND RECOMMENDATIONS

1. Page 29 - Investments—It is recommended that the company file all securities with the SVO as outlined in the NAIC Securities Valuation Office Purposes and Procedures Manual.

2. Page 29 - Investments—It is recommended that the company amend its securities lending agreement to specify the bond valuation service to be used in the daily market-to-market valuation and that either the collateral must be denominated in the same currency as the loaned security, or that 105% of the market value must be given as collateral, if in a different denomination than the loaned security.

3. Page 29 - Investments—It is recommended that the company request, on a quarterly basis, a report detailing all loaned securities and the associated collateral which can be used to determine that the bank is collecting the required 102% of market value of each security loaned, as required by its securities lending agreement and the SVO.

4. Page 29 - Investments–It is recommended that in response to General Interrogatory 20, the company report the correct market value of the securities loaned to others at year-end

5. Page 30 - Investments–It is recommended that the company either prepare a mortgage loan agreement with WBM Corporation and then file it with the county, or report the outstanding principal as an unsecured loan to an affiliate and nonadmit.

6. Page 30 - Amounts Withheld or Retained by Company for Account of Others–It is recommended that the company report payments received with applications for new business as remittances and items unallocated as set forth in the NAIC's Accounting Practices and Procedures Manual.

7. Page 30 - Agents Balances or Uncollected Premiums–It is recommended that the company remove the advance premiums from agent's balances or uncollected premiums and report them as a separate liability as set forth in the NAIC's Accounting Practices and Procedures Manual.

8. Page 31 - Unearned Premium–It is recommended that the company retain premium in-force records in a manner that would provide an audit trail between the company's in-force records and the unearned premium report(s) in compliance with s. Ins 6.80, Wis. Adm. Code.

9. Page 31 - Underwriting and Agency Operations–It is again recommended that the company establish an annual procedure, which ensures that all agents/agencies have the proper coverage of professional liability for errors and omissions in accordance with the company's agency agreement.

10. Page 31 - Underwriting and Agency Operations–It is recommended that the company discontinue charging service fees for installment billing plans on worker's compensation insurance policies until it files its service fees with the WCRB pursuant to WCRB's circular letters #2862 and #2864.

X. ACKNOWLEDGMENT

The courtesy and cooperation extended during the course of the examination by the officers and employees of the company are acknowledged.

In addition to the undersigned, the following representatives of the Office of the Commissioner of Insurance, state of Wisconsin, participated in the examination:

Name	Title
Sarah Salmon	Financial Insurance Examiner
John Litweiler	Financial Insurance Examiner
Tom Janke	Financial Insurance Examiner

Respectfully submitted,

Eleanor Oppriecht, CPA
Examiner-in-Charge

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